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Sessional Committee

DRAFT REPORT OF THE SESSIONAL COMMITTEE

Rapporteur: Mr. Jure Gasparic (Yugoslavia)

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SERVICES WITHIN THE MANDATE OF UNCTAD AS DEFINED IN THE FINAL ACT */

(Agenda item 2)

250. For its consideration of agenda item 2, the Board had before it the following documents:

"The problematics of trade in services and technological change" - report by the UNCTAD secretariat (TD/B/1241)

"Communication dated 6 March 1990 received from the Permanent Representative of Nigeria to the United Nations Office in Geneva" - note by the UNCTAD secretariat (TD/B/1251)

"Technical assistance activities on services" - note by the UNCTAD secretariat (TD/B(XXXVI)/CRP.9)

Consideration in the Sessional Committee

251. The Director, Co-ordinator of International Trade Programmes observed that the secretariat report (TD/B/1241) constituted an overview of a number of studies carried out by the secretariat in specific service sectors and in individual countries. In many service sectors there was a concentration of ownership and market power. In certain sectors, half a dozen firms or less from two or three developed countries dominated the world market for the service concerned. This could restrict competition and hamper liberalization of trade in services, by erecting a barrier to entry to the world market for smaller firms in developing countries. Liberalization of trade in services should not simply serve to increase profits for dominant enterprises, but should strengthen the competitive position of developing-country firms and help them to overcome barriers to market entry and to gain a respectable share of the world market. The competitive position of developing-country firms was also undermined by a lack of adequate financial resources, and the liberalization of services might help to solve such problems, including the area of debt.

*/ For statements made in connection with the adoption of the Final Act of UNCTAD VII, see Proceedings of the United Nations Conference on Trade and Development, Seventh session, Vol.I, Report and Annexes (United Nations publication, Sales No. E.88.II.D.1), part one B and part two.

252. A second consideration was the importance of access to and participation in information networks and distribution channels essential for the delivery of both goods and services to foreign markets and for deriving value added from trade. The liberalization of government measures and regulations could not guarantee access to markets, if corresponding access were not provided to these networks and channels, which were usually in private hands. The position of developing-country firms could clearly be strengthened by action to ensure their full participation in information networks and distribution channels.

253. Another set of problems was related to the movement of factors of production. It had been recognized in the Uruguay Round that movement of such factors might cover trade in services in certain cases and under specified conditions. This implied that initiatives to liberalize trade in services would have to address problems specific to the rights of "persons" - either individuals or corporations - touching upon questions which have usually been considered as immigration or investment issues (e.g. market presence, work visas, recognition of qualifications, origin of firms, etc.). Liberalization of the movement of the capital factor, without corresponding liberalization of the movement of labour, would lead to diminishing returns to labour in relation to capital. Developing countries would have little to gain from a framework for trade in services that did not provide for improved access for labour, both skilled and unskilled. More liberal access for labour movement to developed-country markets could provide developing countries with increased employment opportunities and foreign-exchange earnings, as well as possibilities for the upgrading of skills.

254. Increased imports of services could harm the balance of payments of developing countries and lead to a greater demand for knowledge-intensive services, and thus the acceleration of the externalization process. There was hence a danger that liberalization of market access for these services, which provided the knowledge base for the development of a competitive position in both goods and services and the upgrading of human capital, would result in their being "externalized" out of the country altogether, unless compensatory measures were taken to strengthen the domestic service sector and the competitive capabilities of domestic firms. However, the potential benefits

to be derived from imports of services should not be lost sight of. Developing countries could adopt policy measures on the activities of foreign service suppliers aimed at maximizing these potential benefits, which differed markedly from one service sector to another.

255. Increased co-operation among developing countries on services, and more effective inclusion of trade in services in preferential agreements and regional integration schemes among developing countries, could reinforce the integration process by stimulating increased mutual trade in goods as well as services. It could also provide an opportunity for developing-country firms to improve their competitive strength, so as to enable them to penetrate the world market. This could facilitate the eventual participation of the countries members of such groupings in efforts to liberalize trade in services at the multilateral level.

256. The UNCTAD secretariat had been making efforts to upgrade its data base on services. The weakness of internationally comparable statistics and inadequate data on regulations and corporate practices had become a major impediment to efforts to liberalize trade in services, as it was difficult for Governments to consider and evaluate access commitments with respect to trade in services until they were able to determine the direction of such trade or in the absence of an agreed detailed nomenclature to determine the scope of access concessions. Many countries had proposed that progressive liberalization of services trade should be made conditional upon progress in statistics and greater transparency, especially with respect to the activities of transnational service suppliers from which most of the information on trade in services was obtained. Increased intergovernmental collaboration in this respect was clearly called for.

257. Finally, he said that technical assistance activities at the national level were continuing (as described in TD/B(XXXVI)/CRP.9). The secretariat was grateful for the support received from UNDP and certain developed countries, notably France, in providing financial and expert assistance for these activities, which appeared to have increased the general appreciation of the importance of the role of services in development and the significance of issues involved in the multilateral negotiations.

258. The spokesman for the Group of 77 (India) appreciated the high quality of the secretariat report on item 2 (TD/B/1241). The subject of trade in services was characterized by definitional statistical obscurities, as well as conceptual ambiguities concerning demarcation of the trade and developmental

dimensions of services which made it difficult to apply a uniform approach to various sectors. He pointed out that trade in services comprised the following transactions:

- (i) Cross-border supply of services;
- (ii) Cross-border movement of consumers;
- (iii) Cross-border movement of factors of production under conditions of specificity of purpose, discreteness of transactions and limited duration.

In the view of his Group, cases which involved permanent establishment and foreign direct investment could not be covered within the definition of trade in services. The Havana Charter and the United Nations Code of Conduct on Transnational Corporations clearly provided that a country has the right to determine whether and to what extent and upon what terms it would allow foreign investment.

259. The Group of 77 felt that one of the salient aims of liberalization underlined at Punta del Este and Montreal was to promote development of developing countries by increasing their exports of services. There was a disparity in competitive advantage between developed and developing countries. The developed countries enjoyed an overwhelming competitive edge in most services owing to their vast financial resources, superior infrastructural facilities, virtual monopoly of technological innovation and greater organizational capacities. Therefore, the Group of 77 believed that judicious support and incentives had to be provided by the State in order to develop competitiveness starting from a seriously disadvantaged position.

260. Highlighting drawbacks of concentration of ownership in the services sectors, he fully supported the observation in the secretariat report that it was both inequitable and a waste of resources to undertake major international negotiations to liberalize trade in the service sectors where such liberalization would only serve to strengthen the position of already dominant firms from a limited number of countries and to increase the rent such firms were already gaining from the trade in sectors concerned. He considered that if negotiations were launched in such sectors, they should be aimed at reducing such concentration.

261. In the view of the Group of 77, given the strategic aspects of core services such as banking, insurance, shipping, transport and communications, ownership or control considerations outweighed efficiency considerations in those sectors.

262. Since the restrictive business practices imposed by transnational corporations assumed a much more serious and complex dimension in the area of trade in services than in trade in goods, it was imperative that appropriate guidelines and remedies should be built into any future framework in services. It was also imperative to ensure that the practices and activities of large market operators in services were compatible with national policy objectives of developing countries and that there was a greater degree of transparency in the operations of TNCs. Any multilateral framework would have to incorporate the right of participant countries, particularly developing countries, to introduce specific regulations in pursuance of their development objectives and policies, including prudential regulations.

263. The Group of 77 wanted a priority basis to be given to the relaxation of restrictions on the international flow of labour covering unskilled, semi-skilled and skilled services, providing for easier access to work permits or mutual acceptance of qualifications.

264. He felt that a new framework in trade in services would have to take care not to upset the existing and well-established norms and obligations. Moreover national treatment was a theme to be considered progressively on a long-term basis with the utmost caution and should not follow automatically from market access. Transfer of technology would have to be part of the transactions governing market access. Progressive liberalization would have to give due regard to the need for safeguarding a balance of interest of all participants, especially developing countries. It would also have to recognize safeguard measures and exclusions. The framework of trade in services would be viable if it provided an inherent and wider scope for increasing participation of developing countries, through (i) strengthening of their capabilities through transfer of technology; (ii) requiring foreign service providers to build up the export capabilities of domestic services; (iii) ensuring effective and preferential market access for services exports of developing countries; and (iv) securing their improved access to distribution channels and information networks.

265. The spokesman for Group B (Netherlands) said that his Group found the secretariat report to be an improvement on the previous one. The report stressed that both exports and imports of services were beneficial to developing countries, particularly with respect to the transfer of skills and technological know-how, and touched upon the domestic costs of protecting local service providers. However, the report had a few shortcomings. There

was a tendency to treat developing countries as homogeneous economies - an approach that was too simplistic. Distinguishing among developing countries would allow individual countries to define their national economic interests. The report would have been more useful if it had duly reflected findings from national case studies. It also tended to view economic efficiency or trade liberalization as in conflict with economic development. The secretariat seemed to imply that government was the sole engine of economic development, whereas a more likely analysis would be to view private operators and their customers as playing a significant role in shaping the services economy. While it was correctly pointed out that trade liberalization should not be confused with government regulation, the focus of liberalization in the services sector was to reduce or eliminate the "adverse effects" of government activity.

266. The discussion on balance of payments seemed to neglect the linkages between services and goods and the contribution of services imports to the economy. The question to be addressed would be how countries could maximize the contribution of services to overall economic efficiency, which might or might not involve increasing the contribution of services to a country's balance of payments. The secretariat seemed to assume that it would be useless to liberalize trade in services where this only served to strengthen already dominant firms. However, certain other points made in the report did not support this contention, and the issue of the behaviour of dominant firms should in the first place be addressed in the context of national competition policy. Furthermore, the OECD publication Trade in Services and Developing Countries had been frequently referred to in the UNCTAD report, without always capturing the full intent of the sections cited. That publication did not discuss transfer of technology in the context of a framework, but rather the scope for development gains encouraged by those forms of trade which would facilitate the transfer of skills and soft technology.

267. With respect to GATT-related issues, Group B reiterated the view that it was not appropriate for the UNCTAD secretariat to advocate positions on issues under negotiation in another forum. The secretariat's tendency to confuse concepts, misinterpret the Montreal text and advocate negotiating positions required some clarification. The Montreal text clearly recognized the need to provide flexibility for individual developing countries. The UNCTAD secretariat had alluded to the apparent "intent" of paragraph 4 of the Montreal text. That paragraph simply listed "modes of delivery" and other

factors that might be considered in defining services. The substantive linkage between that paragraph and the rest of the framework agreement had not been established in the GATT negotiations on services.

268. In conclusion, he said that Group B noted that it would be helpful if the Board would focus on more specific issues relating to trade in services and developing countries, such as sectors of priority interest to these countries, and the type of measures that might be undertaken to develop more efficient and competitive industries. In Group B's view, much work had been done to fulfil the mandate in paragraph 105 (19) of the Final Act of UNCTAD VII, and future work on services could proceed on the basis of the earlier mandate set forth in Board resolution 309 (XXX).

269. The representative of China recognized the importance of the services sector in development process. Financial resources, technology, human resources, information and markets were all indispensable prerequisites for the development of the sector and its trade. Development of trade in services in developed countries had not only yielded lucrative economic benefits in itself, but had also resulted in the export of services. In contrast, developing countries were facing economic difficulties derived from economic and social problems. Furthermore, market concentration by transnational corporations and their use of restrictive business practices in certain sectors aggravated such difficulties. Therefore, in formulating the multilateral framework for trade in services, it would be necessary to take into account the specific needs of developing countries in the development of the services sector, as well as the promotion of their increasing participation in the international market. Developed countries and the international community should help the developing countries, in particular the LDCs, to achieve this objective by providing financial resources, technology and training of human resources. It would also be necessary for developed countries to remove the various obstacles such as RBPs and other unfair practices, which hindered the export of services in which the developing countries enjoyed comparative advantage, as well as to increase transparency in the field of services and to facilitate the access of developing countries to commercial information networks and distribution channels.

270. The spokesman for Group D (Poland) said that the report by the secretariat reflected the different views on the importance of service industries for the overall competitiveness of national economies, as well as

on the impact of the regulatory system on the development and trade in services. He found the report less informative on the issues referring to the relationship between the trade in services and technological change. The technology factor was particularly important in the service sector's development strategies in all countries, including the developing ones, since it had an impact on both the domestic and the international competitiveness of their service industries. This issue was constantly present in the multilateral trade negotiations. Group D countries believed that UNCTAD might focus on the role of services in development within its existing mandate.

271. The Group D countries shared some of the conclusions drawn from the analysis in the secretariat report on trade in services and technological change, but on the whole they found them not sufficiently universal and in some aspects over-simplified. It was the view of Group D that the liberalization of trade in services could have a dynamic effect on the development process, and the current economic policy of the Group D countries offered a good example of this concept in practice.

272. The representative of Ecuador drew attention to the proposal for a multilateral framework on services prepared in the context of SELA and submitted to the GATT Negotiating Group on Services which he considered to constitute a positive contribution to the negotiations. The opening up of certain service sectors could entail disadvantages for developing countries, particularly with respect to the balance of payments. Given that competitiveness in services was based on technological innovation, which permitted service enterprises to enter developing-country markets with ease, it was important that safeguard clauses be adopted to protect against an even greater dependence on foreign enterprises and capital as well as an exacerbation of technological dependence and of the debt situation. Preferential treatment of developing countries was necessary to prevent a reinforcement of the developed countries' control over the world economy, particularly with respect to new technologies. In any case, the negotiations on trade in services should be made conditional upon the elimination of the protectionist measures imposed by developed countries on trade in goods. Furthermore, the interrelationships between the new issues - i.e. trade in services, TRIPs and TRIMs - should be examined as well as those service sectors such as air transport, telecommunications, construction and engineering, audiovisual and bank services, where developing countries were in

a deficient and dependent situation. Ecuador was giving special consideration to the positions and criteria adopted by the Latin American Civil Aviation Commission and the International Civil Aviation Organization (ICAO).

273. The representative of Brazil recalled that his country, together with a number of Latin American and Caribbean countries, had tabled a complete draft of a framework on services in the Group of Negotiations on Services in GATT, and noted that the final objective of the negotiations on trade in services would be the promotion of economic growth of all countries and the development of developing countries. Consequently, the framework agreement should be structured in a way which would encourage the effective participation of developing countries in the long-term process of progressive liberalization. Such a process would require trustworthy statistical information on trade in services, as well as a clear definition of such trade.

274. He considered that the insistence on the need for all countries to agree on specific commitments even before the consolidation of the framework agreement would create unnecessary obstacles to the long-term liberalization process. Considering the complexity of issues involved in trade in services, the need for a complex new multilateral approach to disciplined trade in services should not be overlooked. The multilateral negotiations on trade in services would be a unique opportunity to establish a multilateral instrument which would respond to the specific nature of trade in services, and to create the necessary conditions for the increased participation of developing countries in the international trade in services.

275. The representative of Austria said that the discussion on trade in services revealed that countries were still thinking very much along the lines of national security and frequently equated national security with national interest, which was interpreted as guaranteeing a maximum of ownership by nationals. A more positive approach would be to concentrate on the benefits to be derived from an integration of the services sector. Although a good deal of what was stated in the secretariat report (TD/B/1241) was accurate, some points called for specific comments. The secretariat had stated that expanded services trade could produce a transfer of knowledge-intensive services to developed countries and undermine indigenous technological capacities, and that to prevent this and other undesirable developments a multilateral contractual framework should provide guarantees and norms for

future co-operation in the field of services. The argument that by liberalizing the services sector one would run the risk of losing knowledge-intensive services reflected only one side of the coin: foreign banks, hotels, health and education centres, transport and communications companies exported a good deal of know-how and they trained their local staff, thus adding to its professional qualifications.

276. He sympathized with the concern about an undermining of indigenous technological capacities, but drew attention to the extra cost of building up an indigenous sector with local know-how. Governments should study carefully the costs and benefits of protecting certain sectors from foreign competition. A concern for the speeding up of their country's development would call for a liberal approach. After all, development was in the first place a learning process, and human resource development was generally held to be the most vital element in this process. The conclusion to be drawn was a rather encouraging one: a society which received proper education and training could reach the point when it was able to act for itself. When that occurred, strong and competitive companies would emerge along with the existing foreign-owned ones. Therefore, one should not be too concerned about the nationality of a company's owners, provided that it abode by the laws of the host country and contributed to the process of education and training.

277. The development process was accelerating, and nowadays had a good chance of succeeding within one or two generations. The Republic of Korea was a good example. Globalization appeared inevitable in the long run, and its benefits would far outweigh the price.

278. The representative of Egypt said that in order to give what was agreed upon in the Montreal text some operational content it would be necessary to look at some specific elements which related to three areas: imports, exports and the domestic performance of services industries in developing countries.

279. Regarding imports, he said that the Montreal text provided for appropriate flexibility for individual developing countries to open up fewer sectors to liberalize fewer types of transactions. Therefore, it was necessary to elaborate clear guidelines for determining the degree of flexibility in individual cases. To be operational, such guidelines should focus on specific sectors rather than countries. A longer time-frame was needed for the phasing-in of commitments in the case of developing countries. Developing countries would have to be allowed to attach conditions in making

access to their markets available to foreign providers of services: which included limitations or minimum requirements for training and employment associated with different stages of providing the service; requirements with regard to the type of commercial presence; restrictions on operations in certain segments of the market; restrictions on the total volume or value of transactions; requirements to use latest technology, subject to the availability of intellectual property rights protection in the importing country; surcharge and differential tax rates, local content requirement.

280. With regard to exports, the questions of definitions and coverage were closely related to the expansion of developing countries' exports. In relation to domestic performance, preferences for domestic suppliers (procurement policies, access to other infrastructural support services, etc.) and incentives and governmental assistance to domestic suppliers should be emphasized.

281. In conclusion, he said that any multilateral framework must not impinge negatively on the existing services industries of developing countries and their growth prospects, and must ensure that the national laws and regulations which developing countries applied in pursuit of their development and self-reliance objectives were fully respected. He hoped that the UNCTAD secretariat would carry out further specific studies on services so as to fulfil the mandate in paragraph 105 (19) (i) of the Final Act of UNCTAD VII.

282. In the view of the representative of Romania it was important to take account of the fundamental asymmetries between developed and developing countries in the field of services. To overcome this, special treatment was required in favour of developing countries. Among the appropriate measures to achieve this aim, he mentioned the strengthening of developing countries' capacity to supply services and the increase in the efficiency of their service exports. Financial and technical assistance were of top priority for the stated purposes. To facilitate access of developing countries services exports to the world markets, he suggested better access to the information and distribution networks and import liberalization for such services, inter alia on a preferential basis. It was very important that the developing countries should participate in the negotiations on services on the basis of relative reciprocity. The application by developing countries of national treatment to foreign suppliers could only be envisaged where it did not contradict the principle of the protection of their infant industries.

283. He believed that the UNCTAD secretariat had contributed to a better understanding of the problems in services and had provided valuable assistance to facilitate the participation of developing countries in the negotiations on services of the Uruguay Round. The secretariat should prepare further studies on the different aspects and areas of services. He also considered that UNCTAD should continue its technical assistance in order to facilitate the participation of the developing countries in the multilateral negotiations on services and to develop their services sector.

284. The representative of Switzerland considered that the secretariat report demonstrated that simplistic methods of analysis could not be applied to the very complex problems of the real world. Liberalization of trade services could have a dynamic impact on the development process in developing countries but could also cause difficulties, especially when the national regulations were not yet in place or when a service was still in its initial phases. In his view, the way to proceed with this problem would be not to multiply exceptions and cases of legitimate protection but to continue liberalization, in accordance with the rules and the exact timetable, in the appropriate legal framework and to create predictable and transparent conditions for the contracting parties and economic operators. This corresponded to the objectives of the Uruguay Round. Two conditions would have to be fulfilled for the envisaged framework agreement to attain its goals: the sectoral coverage of the agreement should be universal and participation in the agreement should be as wide as possible, taking into account the situation of the developing countries, particularly the least developed. The best approach to the problems of different countries and services would be to seek flexible solutions, tailored to each country. He recognized the validity of concerns with regard to cultural sovereignty, but pointed out that that concern was universal. Finally, he emphasized that the framework agreement could not serve to modify national immigration laws.

285. The representative of Hungary said that he shared the analysis of the secretariat report in those parts of it which underlined the growing importance of services in national economies, from the point of view of overall growth and development. He also agreed that services imports could effectively contribute to the modernization process and to the exports of goods. Concerning the balance-of-payments considerations linked to the liberalization process, he believed that a balance of interests should be

achieved. To this end, the future framework agreement should cover all traded services and actual liberalization commitments should be undertaken on a wide range of sectors. He agreed with the report with respect to the high incidence of restrictive regulations on the movement of persons through visa and work permit practices. At the same time, his delegation had certain difficulties with the secretariat's tendency to look at all issues in the process of liberalization from the simple angle of dividing up the world into developed and developing countries. With respect to services, countries' levels of development and their participation in international services trade was much more heterogeneous than was implied by the secretariat report. The necessity of a more differentiated approach was accepted in the Uruguay Round negotiations, as reflected in the Montreal document. He did not think that the negotiations on services were based on a simple bloc approach that would require substantial and uniform undertakings from one group of countries only. Such a sharp differentiation in commitments would beg the question: what would be the criterion on the basis of which countries would be classified as belonging to one bloc, or the other? Would it be their respective overall level of development? Would it be development of individual services sectors? Would it be participation in international services trade? Or some other criteria? In conclusion, he stated that Hungary was interested in achieving a substantial liberalization of trade in services. In the negotiating process the individual situations and levels of development of every participant should be properly taken into account, and commitments should be made accordingly.

286. The representative of Mexico emphasized that technological changes were modifying both production and consumption patterns. Productive processes were transcending national markets, taking the form of large chains on a world scale. These changes were leading to a greater interdependence at the regional and global levels. The work of UNCTAD had contributed to a better understanding of the services sector, providing a conceptual framework which enabled developing countries to evaluate the role of services in their economies and to formulate strategies on domestic policies and on international negotiations. In particular, the work of UNCTAD had underlined the fact that no country could aspire to higher levels of development without a modern, efficient and productive services sector. Developing countries were faced with the challenge of strengthening this sector so as to respond to the

changes taking place in the world economy. A large number of countries with different political ideologies and levels of development were endeavouring to adapt their economic structures to the exigencies of a multipolar system and new forms of international competition.

287. For Mexico, the Uruguay Round was an excellent opportunity to arrive at a trading system which would offer mutual benefits to the international community, giving special attention to the needs and problems of the developing countries. The President of Mexico had recently put forward a series of principles on which the Round should be based in its final year in order to achieve success.

288. The report prepared by the secretariat had highlighted issues with respect to market structures and institutions and laws. It was pertinent to underline that services technology developed less from the use of hardware than from the accumulation of information and the development of human resources. He also stressed the necessity of increasing the participation of developing countries in international trade in services, and for policies aimed at stimulating services exports of these countries. To accomplish this, it was vital for developing countries to have access to information networks and distribution channels. It was also imperative that any services agreement include modalities related to the cross-border movement of labour, given the competitiveness of developing countries in labour intensive services. The work of UNCTAD had assisted in the identification of the barriers which impeded the exports of services from developing countries. The conclusions of the secretariat's report suggested areas for further work under the UNCTAD work programme.

289. Mexico had participated actively and constructively in the negotiations on services in the Uruguay Round and was prepared progressively to liberalize its trade in services within an internationally agreed framework. However, it was necessary that these negotiations include all services and all modes of delivery in order to achieve a balance of interests and of rights and obligations, both in these negotiations and in future negotiations carried out within the multilateral framework. He did not accept that either countries or services could be divided into first and second classes. The development dimension could not take the form of an appendix to the framework agreement, but must permeate all its provisions. This had been the approach of the group

of Latin American and Caribbean countries which had recently submitted the text of a proposed framework to the Group of Negotiations on Services whose intent had been to promote the achievement of a consensus among the participants.

290. Finally, Mexico was engaged in a process of modernization of its regulations governing the services sector which was expected to lead to rapid growth in the participation of foreign suppliers in the national market. Developing countries should be given credit for this type of liberalization in the Uruguay Round, as had been proposed in the document submitted to the Group of Negotiations on Services.

291. The representative of Tunisia, underlining the importance of services for individual country economies, recalled the findings of the Trade and Development Report 1988, which argued that services were the principal source of additional jobs in most of the world economies suffering from unemployment. In the Tunisian economy, services represented 50 per cent of GDP, one third of jobs and 37 per cent of total exports. He described a new policy of liberalization in the Tunisian economy which already embraced 70 per cent of prices as well as the privatization of public enterprises and the progressive opening of frontiers. This policy was supplemented by a strategy of strengthening the interrelation between services and industrial enterprises, in particular in export sectors. For export-oriented international companies, the Government had created a new régime allowing an option between resident and non-resident status. A special legislation for the encouragement of services exports had also been adopted which envisaged an encouragement for financial co-operation with foreign enterprises through partnership agreements. However, the ultimate objectives remained growth and development.

292. He stressed the fundamental asymmetries in services between developed and developing countries, including in the concentration of capital. This inequality of forces rendered only too evident the negative consequences to which a hasty liberalization could lead the economies of developing countries. The liberalization in services, if it had to take place, could only be achieved in a selective manner and in a regulatory framework which took into account the interests of all countries. The framework should also envisage measures in favour of developing countries.

293. The representative of Peru stated that his delegation had co-sponsored the draft text of a structure of a framework agreement on services submitted by Latin American countries in the Group of Negotiations on Services (GNS). The framework agreement resulting from the negotiations should be, in his view, a real instrument to promote development in developing countries, where liberalization is the means but not the goal. He called for as wide a sectoral coverage by the future framework agreement as possible and for the inclusion of sectors that were of particular interest to developing countries. Questions of economic development should permeate the framework agreement. He did not want to see development considerations as best endeavour clauses, which would be meaningless. Accordingly, Latin American countries had put forward their ideas in the GNS and they thought that, in the course of negotiations, they would receive support for their proposal. He underlined the very important role of UNCTAD in the area of services and expressed his appreciation for all the support which the secretariat had provided and continued to provide to developing countries in the related negotiations.

294. The representative of the European Economic Community said that the report by the secretariat (TD/B/1241) contained many elements with which the Community could agree. But its assumption that all developing countries had exactly the same needs, strengths and weaknesses was manifestly not the case for trade in services, where some developing countries were highly competitive in certain sectors even when their overall level of development was fairly low. There was a tendency, as was shown in paragraphs 30-39 of the report, to assume that developed countries had all the advantages and developing countries had none. The concept of "strategic" sectors informed much of the report's approach (cf. paras. 46-47). While this might be valid in a few sectors, the approach outlined in paragraph 46 was so broad that it came close to an import substitution model. This led inevitably to the conclusion in paragraph 47 that "control considerations may be relatively more important than efficiency considerations". This was hardly consistent with the effective promotion of development. The goals which are referred to in paragraph 46 could be better achieved not by attempts at import substitution but rather by liberalizing trade in the most appropriate manner to promote those objectives (in many instances through establishment of domestic services rather than through cross-border provision of services). Such an approach was

also the best way to ensure effective transfer of know-how to developing countries and thus to promote domestic sectors without adversely affecting their balance of payments. Much of the argument in the report seemed to be based on the assumption that Governments were the sole arbiters in the development process. The globalization of some services increased the need for Governments, which played an important role in this sector, to keep under review the effectiveness of their policies in ensuring a competitive environment.

295. She said that EEC would encourage the UNCTAD secretariat to pursue its work on the basis of its mandate so as to contribute more appropriately to the Board's reflections. It would be helpful if the Board were to address specific questions relating to trade in services, such as those of specific interest to developing countries, and the measures necessary to develop the efficiency and competitiveness of the domestic and export capacity of developing countries.

296. The representative of Iraq stated that the secretariat's report on trade in services and the rapid pace of technological changes demonstrated that the developmental dimensions of trade in services was an important subject and that more importance should be attached to its discussion. Although the services sector was still very weak in the developing countries economies, it was becoming increasingly necessary to ensure that services play a principal role in their economic development. It was equally important to update the information and statistics on services production and trade and to make them available, because of the effective role this information would play in deciding on national policies. It was also important to develop the human resources needed for the modern services sector. For this, it would be necessary to strengthen the co-operation among States members of UNCTAD by identifying the opportunities for such co-operation and the means of achieving it. There was also a need to study national legislations and systems relating to investment and trade in services.

297. The representative of Australia, referring to his country's approach to the Uruguay Round negotiations on services, said that Australia's objective was to see a dynamic services agreement concluded in the Round. It was important that this services agreement should have the broadest sectoral coverage, while providing scope for reservations to handle problem areas which every country had, including Australia, or where countries initially could not

meet some of the rules in individual sectors. Strong rules ensuring that MFN/non-discrimination, national treatment and transparency applying to all covered services were particularly important for Australia, as well as for other smaller and developing countries which had limited negotiating leverage in the current bilateral environment. Market access for services covered by a framework should be subject to negotiation, to provide a basis for the subsequent liberalization of services markets. Finally, developing-country participation in this agreement should be negotiated on a flexible basis, in accordance with each country's trade, finance and level of development. Many developing countries already had strongly competitive service industries and Australia had been encouraged to see the active participation of many developing countries in the negotiations.



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DRAFT REPORT OF THE SESSIONAL COMMITTEE

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Addendum

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AGENDA ITEM 3: PROTECTIONISM AND STRUCTURAL ADJUSTMENT

(continued)

298. The representative of the Islamic Republic of Iran said that the changes which were taking place in the countries of Eastern Europe would give those countries an opportunity for rational decision-making based on market forces and that other countries could learn from their experience. He considered the transformations in Eastern Europe to be a positive development for his own country, which as a developing country had to optimize its resource allocation. However, this was not sufficient. Rational decision-making in any country needed to be based on the normal interplay of market forces. Developing countries should be assured by developed countries that market forces would be allowed to function properly and without manipulation. Fulfilment of this condition would not only provide a foundation for reforms in Eastern Europe, but would also provide a constructive stimulation for the development endeavour of the developing countries.

299. He considered that that protectionism applied by developed countries distorted decision-making and resource allocation in developing countries. But tariff and non-tariff measures were not the only form of protectionism which adversely affected trade. The most subtle protectionist measures were inherent in the asymmetric functioning of international monetary system, which distorted the trade of developing countries. Institutional manipulation of market forces had exhausted the potential development opportunities of his country. Free market forces entailed that every participant, private or public, should not have any significant impact on the market, but developing countries as well as some developed countries could not affect markets significantly. As things stood, a few mavericks of the world economy determined the direction of world trade flows, through their money-creation behaviour and budget management, and by adopting policies on interest rate levels and exchange rates levels consistent with their own internal goals. Thus, while they were reducing the fluctuations in their own internal business cycles and living through a prolonged period of recovery, they were exporting their cyclical fluctuations to the developing countries and leaving them to endure a prolonged period of recession. He requested UNCTAD to deal with this institutional malfunctioning of the international monetary system.

300. The representative of the International Monetary Fund (IMF) emphasized that structural adjustment and the elimination of protectionism were crucial

to the achievement of high rates of economic growth. Although higher growth had been achieved by a wide range of both industrial and developing countries, for too many countries the situation continued to be difficult. In many cases, this was either because appropriate policy reforms had not been undertaken or had been pursued only intermittently, or because the reforms were still too recent to have resulted in a resurgence of economic growth. But often also, progress had been inhibited by a lack of adequate market access for exportable products or by uncertainty on whether market access could be maintained over the medium term.

301. He pointed out that policymakers around the world were increasingly directing their efforts towards establishing an incentive structure that eliminated the rigidities of the past and that attempted to ensure that those who worked, saved and invested would be adequately rewarded. In this context, he felt uneasy with the discussion in the secretariat report (TD/B/L240), which argued that trade and industrial policies should be given a selective and sectoral orientation with a view to promoting an allocation of resources in line with the perceived evolution of a country's comparative advantage. To his mind, such selective policies had been at the root of the structural problems, including problems of protectionism, in many countries and he would strongly counsel against such an approach. Rather, he believed that policies based on a more neutral set of incentives which, by their nature, favoured the most efficient sectors in the economy, were much more likely to produce higher economic growth, both now and over the longer term. Macro-economic imbalances needed to be eliminated within an environment of economic incentives that were free of distortions and that provided adequate rewards to work, entrepreneurship, and savings. Given their potential to affect the prospects of others, the larger developing and industrial countries had a particular responsibility in this regard. Moreover, structural adjustment efforts should be supported by adequate flows of financial resources. For its part, the Fund intended to continue to help member countries by offering technical advice on the adjustment process and also by helping to provide the required financing.

302. The representative of Iraq stated that the issue of protectionism and structural adjustment, as reflected in the secretariat report (TD/B/L240), had grown in importance ever since UNCTAD II and the remedies thereto had been clearly stated in Conference resolution 96 (IV) and reiterated in Conference resolutions 131 (V) and 159 (VI) and the Final Act of UNCTAD VII. However, his delegation considered that the trading environment had recently continued

to deteriorate. Despite the launching of the Uruguay Round and the commitments made, protectionist policies by developed market-economy countries had increased considerably. The reports by the secretariat attested to the deterioration of the trading environment, particularly with respect to developing countries. Moreover, no significant steps had been taken by the developed countries in the area of structural adjustment, particularly in sectors in which developing countries had achieved relative progress. The developed countries were still subsidizing a broad range of agricultural products and had failed to take the necessary adjustment assistance measures for the conversion of ailing and non-competitive industries. In this situation, developing countries' trade policies and efforts were of no avail.

AGENDA ITEM 5: INTERSYSTEMS TRADE

(continued)

303. The representative of Iraq noted that the examination of international economic relations, in particular East-South-West trade and economic relations, was an important activity of UNCTAD. Concerned at the deteriorating trade balance against developing countries in East-South trade relations, he called for an increased volume of imports of manufactures and semi-manufactures from developing countries by East European countries. The expansion of inter-systems trade and economic relations, as called for in the Final Act of UNCTAD VII, required the elaboration of a programme for its further expansion. In this regard, his country supported the draft proposals submitted by the Group of 77 at the Intergovernmental Group of Experts on Inter-Systems Trade, which were annexed to the report of the Group of Experts (TD/B/1244).

304. There was a need to expand the technical assistance activities of UNCTAD in order to promote the trade of developing countries with East European countries. In this regard, he called for increased co-operation between the regional commissions, UNDP, ITC and UNCTAD.

Action by the Sessional Committee

305. At the 6th meeting, on 19 March 1990, the spokesman for the Group of 77 (India) introduced a draft resolution on agenda items 2, 3, 4(a), 4(b) and 5, which his delegation had submitted on behalf of the States members of the Group of 77 (TD/B(XXXVI)/SC/L.2).

[To be completed as appropriate]